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There is a widening availability of good education, while the self-made man is becoming rarer. Technological change in all production requires men of special skills and high education; unskilled labor is now in low demand.

To aid the unemployed, mobilization of their productive power and fulfillment of their needs must be performed at the same time. Expansion and structural unemployment must be examined. Services for the old, for youth, for teachers, and for research should be established. Education and training of the labor force must be adjusted to the needs of our society. Adult workers must be retrained.

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SECTION 1

Poverty In Plenty

The Matrix

by

Gunnar Myrdal

Having to live with large pockets of poverty-stricken people in their midst is not a new experience in the American nation. Right from slavery the masses of Negroes formed such pockets, both in the rural South and in the cities - South and North. Such pockets were also formed by other colored people who immigrated to work as laborers from Asia, Mexico, and Puerto Rico. Most American Indians in their reservations were also poor and isolated as they are today. There were also, as there is still, pockets of "poor whites," ordinarily of old American stock, who lived by themselves in abject poverty and cultural isolation.

Most European immigrants had a hard life before they became really integrated in the American society. Particularly the later immigrants from Eastern and Southern Europe clustered in segregated settlements in the cities. There they could help each other in a new and strenge environment, but at the same time this delayed their assimilation and usually they remained very poor.

Also there was periodically in the American economy a general slackening of demand for labor, culminating in the Great Depression, when even many ordinary Americans -- though to a very much smaller extent -- were thrown into idleness and deprivation.

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Most European immigrants had a hard life before they became really integrated in the American society. Particularly the later immigrants from Eastern and Southern Europe clustered in segregated settlements in the cities. There they could help each other in a new and strange environment, but at the same time this delayed their assimilation and usually they remained very poor.

Also there was periodically in the American economy a general slackening of demand for labor, culminating in the Great Depression, when even many ordinary Americans -- though to a very much smaller extent -- were thrown into idleness and deprivation.

I believe it is important to have in our minds this broad picture of the historical reality of American poverty as a background to the discussion of the problems facing us today. The regular, prosperous Americans have become accustomed to living with unassimilated groups of people in their midst about whom they know in a distant and general way that they are very poor. The fact that in earlier time they themselves lived under the risk of being thrown out of work and losing their livelihood, though mostly only temporarily, made it easier for them to feel unconcerned about the people who more permanently were enclosed in the pockets of poverty. Otherwise, the existence of all this poverty

in the midst of progressive America, of course, stood out all the time in blunt contradiction to the inherited and cherished American ideals of liberty and equal opportunity, as these ideals increasingly had been interpreted, particularly since Franklin D. Roosevelt and the New Deal.

The widening of the availability of good education -- from the grade schools up to the university levels -- where America had the lead in the Western world and still, on the whole, holds the lead -- meant a tremendous increase of the possibilities for social mobility. It played its role effectively in the ever fuller assimilation of the children and grandchildren of the European immigrants. For a small number of people in the colored groups it made possible their quasi-assimilation into middle class status, though usually with retained walls of segregation and discrimination, which, incidentally, often worked out to their personal advantage by creating petty monopolies in serving the demands from their own groups.

Meanwhile, and partly because of this, the self-made man who without higher education could rise to the top was on the way out since at least half a century. Indeed, the level one could normally reach without more than elementary or even high school education was continually creeping downwards. This, however, was even less of a disadvantage in majority America as at the same time the educational opportunities were widened for the youth and as an ever larger part of the grown-ups had already availed themselves of these opportunities.

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Parallel to this big change in the quality of the labor supply was the technological change in all production which continually raised also the demand for labor for those with higher education and training. In recent years what is called automation -- and the formalization of the procedures at employment and other institutional changes -- has speeded up this process to the extent that the rapid educational advance is even lagging. We can see that this is so since labor has more of a sellers market the higher on the educational ladder it has climbed. This is generally appreciated and increased facilities for higher education as well as for research are being rather generously provided.

While this has been taking place in majority America, there has, at least until recently, been a gradual improvement also in educational possibilities even in the pockets of poverty, the masses of Negroes, the other minority groups, and the poor whites. But everywhere the schools are still very bad for these groups; in some places they might recently have been deteriorating. And under the conditions of poverty with all that poverty implies, a large number of children are still dropping out of high schools and even grade schools. In these surroundings few are interested, or if interested able, to continue to higher studies.

Meanwhile, automation and the other changes pointed to are all the time decreasing the demand for unskilled and uneducated labor. And standards are rising fast even in household and other menial work. For crude and shifting laborers there is less and less demand. Something ever more like a caste line is so drawn between the people in the urban and rural slums, on the one hand, and, on the other, the majority of American, who themselves live in a virtual full employment economy, even while the unemployment rate is rising and the growth rate of the economy is low. Except for a lower fringe, they experience a hitherto unknown security, for it is a tacit understanding in America as in the rest of the Western world that a recession would never again be permitted to develop into anything like the Great Depression. But there is an underclass of people in the poverty pockets who live an ever more precarious life and who are increasingly excluded from any jobs worth having or who don't find any jobs at all.

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A crucial cause of the deterioration of the relative status of this underclass of people in the poverty pockets is the high and, as a trend, rising level of unemployment. When unemployment is high and particularly when it is becoming higher, more people become unemployed for longer periods, especailly the young and the old.

The number of the unemployed, moreover, is only an indication of a considerably wider circle of people with an abnormal situation as breadwinners. Some are giving up looking for jobs and are then no longer counted among the unemployed. Some are coming into a position of having only casual jobs. Some are "underemployed" employees or self-employed people with very low

productivity and incomes, just as in underdeveloped countries. Some may gradually become, or were from the beginning, "unemployables."

How poverty breeds poverty in a vicious circle, how the whole milieu becomes degrading and how, in particular, low labor quality and even associality is inherited by the children and the young will, I am sure, be developed in some detail by other speakers at this conference.

I want to stress, however, one important political fact. This underclass has been, and is largely still, what I have been accustomed to call the world's least revolutionary proletariat. They don't organize themselves to press for their interests. The trade union movement comprises only about one fourth of the workers, mostly its upper strata who, in the main, belong to the prosperous majority. To a relatively higher extent than normally they do not register and vote at elections -- even apart from the large masses of Negroes in the South who are prevented from doing so.

It is a fair inference that this fact is not unconnected with the other fact that in almost all respects -- minimum wages, social security, agriculture, housing, etc. -- American economic and social policies show a perverse tendency to favor those above the most needy groups. Even this will probably be developed by later speakers at this conference, and I leave it after having made this general observation.

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II

In very recent times we have seen one important break of this empirical rule of the political apathy of the poor in America. I am, of course, referring to the rebellion of the Negroes in Southern and Northern cities. Without any doubt, this is a true mass movement -- indeed, so much so that the Negro leaders in the upper and middle class have had to run very fast to remain in the lead -- as have, on the other side of the fence, the administration and other whites responsible for American policy.

I am not at this time going into the question of how this movement, so exceptional from what has been the pattern of passivity on the part of the poor in America, has come about. But I should mention two things about which I am pretty sure. One is my belief that the outbreak of this rebellion just now is not

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unconnected with the high and, as a trend, rising rate of unemployment, which as always runs much higher -- about double -- for Negro workers than for whites.

Another thing of which I am equally convinced is that this movement will not abate -- least of all unless very substantial reforms are rapidly undertaken to improve the status in American society of its Negro citizens.

And it will not be enough to give the Negroes legal rights equal to the white majority and to enforce these rights. This I am optimistic enough to forecast will happen within the next ten years. It willlnot even be enough to countervail also the adverse prejudice against Negroes, which will remain and exert its influence even after the legal props have been removed. What will be needed are, in particular, social sanctions to defend the Negroes' equal opportunities to employment, against the resistance of trade unions more than employers and the business world, particularly big business. Even when all this is accomplished, the Negro masses will nevertheless continue to suffer all the lasting effects of the disabilities and disadvantages of their poverty, their slum existence and their previous exclusion from easy access to education and training for good jobs.

Indeed, it is easy tounderstand why some of the Negro leaders, and some white liberals, are now raising the demand for a new Marshall Plan to make good the effects of the maltreatment in America of the Negroes from slavery and up till this day. Nevertheless, I am convinced that this demand for a discrimination in reverse, i.e., to the advantage of the Negroes, is misdirected. For this conviction I have several reasons.

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Nobody feels a guilt for times that have gone but only for the present conditions and the future. The demand has therefore no political bottom. Nothing would with more certainty create hatred for Negroes among other poor groups in America who have anyhow always mostly been their bitterest enemies as they have been the only ones who have felt them as competitors. Moreover, special welfare policies for Negroes are in vast fields technically not very practical. Negro housing cannot very well be improved, except as part of a plan to improve the housing situation for poor peoples in general. The same is true of education.

Finally, special welfare policies in favor of the Negroes would rather strengthen segregation and their exclusion from the main stream of American

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life, while what the Negroes want is to have equal opportunities. I believe a study of the effects in India of the special advantages offered to the untouchables, or the Harijan s as Gandhi called them, would substantiate these views of mine.

The basic fact is that there are many other groups in America than the masses of Negroes who are very poor, who live in the slums and who are afflicted with all the handicaps of extreme poverty. What America needs is a Marshall Plan to eradicate poverty in the nation. This is a moral imperative. At the same time the unemployed, the underemployed, and the now unemployables are America's biggest wastage of economic resources. Moreover, the poor represent a suppressed demand which needs to be released in orddr to support a steady and rapid growth of American production. The moral imperative becomes so strongly motivated also from what we used to call a purely economic point of view.

In America today, the goals of social justice and economic progress thus are not only compatible. Indeed, a rapid and steady economic growth is impossible without mobilizing the productive power of the poor and, at the same time, clothing their unfilled needs with effective demand. The existence of mass poverty in the midst of plenty is a heavy drag on the entire eonnomy. To these economic problems I now turn.

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III

The statistics on unemployment in America do not give a complete account of the part of the labor force that is kept idle or is working with abnormally low productivity. Besides the four million unemployed there are the workers who are only part-time employed, those who have given up seeking work, and all the underemployed.

Nevertheless, the movement of the unemployement rate is important as an indication of the trend. It is an ominous fact that even the prolonged upturn in production from 1961 and onwards has not implied a substantial decrease in that rate. Nobody seems to expect that the continuation of the present boom will bring down unemployment to a level which could be considered even to approach full employment. And nobody assumes that there will not be a new recession, if not this year then the next. It is reasonable to expect that the unemployment

rate will then reach a new high point. There are definite signs that the trend is rising.

For this there are explanations. I believe it is important to stress that none of the specific explanations put forward makes a rising trend of enemployment inevitable, or, from the other point of view, could by itself prevent the attainment of full employment. Only in conjunction with each other do these influences have the present disastrous result.

Thus if in the Sixties exceptionally many young workers enter the labor market, this should not necessarily mean more unemployment. Production could expand rapidly enought to absorb them, and all the new workers could have been properly educated and trained so that they fitted the demand for labor as it has been changing. We might on this point recall how long ago Professor Alvin Hansen and other economists, including myself, used to think that in rich countries, where capital is plentiful, a rapid population increase would rather act as a spur to expansion. For it would stimulate the demand for new housing and all the goods and services accessary to housing, for new schools, more teachers, and, later, for more productive capacity.

Likewise, automation should not by itself lead to unemployment if output expanded enough and the labor force were adjusted to fit the change in demand, caused by automation itself, among other things. We should in this connection remind ourselves that there are countries with full employment, though they have an equally rapid pace of automation. There automation is viewed as driven forward by the scarcity of labor and as resulting in higher productivity of labor, higher earnings and a rising consumers' demand for products and services, while in America it is discussed as a cuase of unemployment.

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It is, of course, a somewhat open question to what extent structural unemployment -- in the meaning of an incompatibility between demand for and supply of labor of different qualities -- is the result merely of a low rate of expansion. Without doubt, rapid expansion and scarcity of labor give labor a better chance to acquire the training which fits it for the changing labor demand. But when the process of automation goes rapidly and when the influx of new youthful workers swells as at present, expansion is not enough to preserve the

equilibrium between demand and supply of different qualities of labor. It will still less be able to restore that equilibrium when it is lost, as unemployment itself has caused lower labor quality than would have resulted if more workers had been given the chance to work and to improve themselves.

In fact, the adherents of the theory that expansion is enough contradict themselves when, as usual, they assume that even on the crest of a boom there would be a very high level of unemployment -- four percent has been widely accepted as a goal. It should be understood that such a high level is an abnormal situation, particularly as we have to add underemployment which is almost as unfortunate a destiny for poor people. The analogy to what happened in the war and immediate post-war period, which is usually resorted to, seems a halting one, first, because these two processes of automation and a rapid increase in the younger age-groups of the labor force had at that time not acquired the same speed and, second, because the decrease in unemployment went together with a very considerable inflation, which no one at present is prepared to accept. This means that the present unemployment -- and the other types of undesired idleness and underemployment -- cannot be cured merely by expansion.

But, more fundamentally, I look upon as highly unfortunate this formation of two schools, one pressing for expansion and the other one stressing structural unemployment. Many, and perhaps most, economists tend to the first view; it suits their traditional predilections, x strengthened by Keynes and his followers, to deal with labor as a homogeneous factor of production. The reality of structural unemployment is, however, very palpable to the sociologist, the educational and labor market expert, and the social worker. What is needed, however, is a combination of these two types of insight.

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Practical policy problems in our society are never "economic," "social," or "psychological." They are simply problems and need to be tackled in all their actual complexity, not compartmentalized according to the traditional division in disciplines. This division, after all, is due only to specialization and convenience in teaching. Indeed, any attempt to deal with unemployment as a problem of national planning assumes such a broader view.

There is, indeed, a very close interrelation between the two aspects. A prolonged relative stagnation with a high level of unemployment breeds

structural unemployment whi ch can then not easily be absorbed merely by a later expansion. Social processes are usually not reversible. Also, the existence of an undemanded part of the labor supply would make the higher quality brackets very scarce as a boom is proceeding. It thus lowers the ceiling where a boom has to be broken, if it is not to change from an expansion in production into mere inflation. On the other hand, most of the policy efforts to cure structural unemployment by raising the quality of the labor supply, for instance the retraining schemes, risk failure, unless there is expansion creating scarcity of labor in fields where the retrained can be absorbed.

The whole problem of expansion and structural unemployment should be viewed under the broader vists of what type of society we are moving towards in the modern rich countries. A continually smaller part of our total labor force, relatively speaking and often absolutely, will be needed in agriculture, manufacturing industry, heavy transport, distribution of commodities, banking and insurance. If we could countervail Parkinson's law, which for various reasons is working with particular force in America, even many sectors of public administration would demand less labor.

More and more of our efforts can, therefore, be diverted to other purposes which, as we know, are not sufficiently met today: services of various types and, in particular, care of our old, our children, our youth, teaching and research, and culture generally. In time we will have more planned leisure and this will be more of a real blessing to the people, the higher levels of culture we have reached. That we are moving and will continue to move our productive life in those directions is an economis law as certain as Engel's law that with rising incomes we are devoting and will be devoting an ever smaller portion of it for food consumption.

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It is the serious lag in adjusting the education and training of our labor force to the needs of this new society which is the general cause of the situation, where we have serious overemployment in some sectors of our economy, at the same time that there is an uncomfortably large and growing residue of structural unemployment and underemployment that cannot be eradicated by any expansion feasible of our production.

IV

Against this background it is easy to establish the broad lines of the policies that we will have to apply in order to cure our economic ailments. Huge efforts will have to go into education and vocational training, not only on the higher levels but on the level of grade schools and high schools. Quite particularly, we will have to lift the level of elementary education for the poor people in the urban and rural slums who are not now getting an education that fits them to the labor market. We must at the same time undertake the retraining of the older workers who are continuously thrown out of jobs without having the abilities to find new ones in our changing society.

As the underutilization of workers with less education and training is so huge, I see it is as almost a fortunate thing that America has such vast slums in the big cities and smaller ones in the small cities, that need to be eradicated, so many dwellings for poor people that are substandard, so many streets that need to be kept cleaner, and such crying needs for improvement of the transport system, particularly in the metropolitan districts. It is true that to make unutilized or underutilized labor useful in construction work also required training and retraining. But to make an unskilled worker able to do many things of this type should be easier than to make him a teacher or nurse.

When this is said it should be stressed, however, that a primary condition for the success of such strivings is rapid and steady economic expansion of the national income or product. Without an increase of the demand for labor, no efforts for training and, in particular, retraining of workers on a mass scale can have any success. This is the important argument for the view that

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When this is said it should be stressed, however, that a primary condition for the success of such strivings is rapid and steady economic expansion of the national income or product. Without an increase of the demand for labor, no efforts for training and, in particular, retraining of workers on a mass scale can have any success. This is the important argument for the view that expanding the economy is the essential thing. Expansion is, in a sense, the necessary condition for any effort to readjust the supply of different types of labor to demand. As I have already pointed out, there are in an expanding economy market forces tending to work in this direction, while stagnation breeds maladjustments, in the extreme case resulting in an increase in the unemployables.

On the other hand, improving education and training and conducting schemes of retraining grown-up workers imply expenditure. So does even more the building of schools and hospitals and, of course, slum clearance and the

provision of low-cost housing for the former slum dwellers. The increased expenditures spurs demand and expansion. Moreover, as I am sure will be further developed by other speakers at this conference, it is a hopeless task to do anything in the way of improving the quality of the young without at the same time lifting the poor people out of poverty. Otherwise the vicious circle will not be broken. If we transfer the needs of the poor into effective demand it will permit more automation with less displacement of labor.

The additional means to accomplish the eradication of poverty is, of course, direct redistribution of incomes. The reforms of this type which are needed in America include a redirection of agricultural policy to aid the petty farmers, tenants, and agricultural workers -- at the same time as the application of vigorous policies to retrain them and assist them to move out of the unproductive lines of work where they are now -- the extension of minimum wages in many fields where they are now not applied though very badly needed; a change of the taxation system so that it is not as now regressive in the lower income brackets; redirection of the so-called kurban renewal to provide also new housing for the poor who are driven out; the provision of more and better health facilities for the poor, which implies also the building of hospitals and the training of nurses and doctors on a larger scale; the broadening and increase of the social security system for the unemployed, the families with many children, particularly those without a husband and a father, and, in particular, the aged. In all these fields America is "still lagging far behind" when compared with the most advanced among the other rich countries.

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While the primary purpose of these urgent reforms is to lift the poor out of their present destitution, they all mean huge expenditure, which spur demand and expansion of production. At this time, when automation is proceeding so fast that, with the low trend of expansion, workers are thrown out of work -- to the extent, in fact, that American trade unions are even tempted to follow the reactionary and defeatist lines of opposing technological advance and wanting to share unemployment by asking for a 35-hour work week, which implies more leisure than they otherwise would feel the need for -- this broadening of the demand for goods and services by making the needs of the poor effective purchasing power is motivated for reasons of expansion of production as well as

for eradicating mass poverty.

A common characteristic of all the reforms mentioned above, directed at raising the quality of the labor force and eradicating poverty in the midst of plenty, is that the increased expenditure will be public expenditure. Moreover, even at a future time when poverty is gone, when there is no or little unemployment or underemployment so that many of these expenditures will decrease, for instance, for unemployment relief, it is very clear that the extension of Engel's law I talked about will necessarily imply that a relatively much larger part of the nation's needs will have to be met by collective means. In the future society towards which we are moving, where, as I said, our productive efforts will increasingly have to be devoted to care of human beings, health, education research and culture, and even materially making our local communities more effective instruments for living and working, the public expenditures will be an ever larger part of our total expenditure. This so because it is not very practical and economical, and in most cases not even possible, to rely on private enterprise for filling these types of demands.

In any case, at the present stage the reforms needed to raise the quality of labor and eradicate poverty cannot possibly be undertaken by private enterprise but become necessarily the responsibility of the state. Also, the raising and stabilization of the growth rate of the national economy, which is the predondition for the success of all these reforms, does not come about by itself but only by deliberate public policy directed at expansion and steadily maintained expansion.

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Such a policy meets a forceful inhibition in the American milieu with its inherited patterns based on a dislike of public expenditure and state interference. The relative niggardliness of America in these respects is, of course, caused by that particular inhibition. As the effects are so serious under conditions of the relatively low rate of economic growth, the high and, as a trend, rising rate of unemployment and underemployment, and the huge pockets of poverty and misery, it is of utmost importance that his inhibition be overcome by popular education. The blame is often unjustly placed on Congress, but Congress, of course, reflects public opinion, a fact which is often demonstrated in the opinion polls.

Admittedly it takes a high level of rationality and public education to be free from this inhibition. No nation is entirely free from it, though America is unquestionably a particularly serious case with the discouraging results which we see around us. Overcoming that inhibition would imply feelings of full solidarity between Americans. This is a moral imperative but equally founded, I believe, in the rational interest even of the prosperous majority of Americans. For those people who live in misery and whose production capacity is now unutilized or underutilized, would well be able to pay for themselves in a realistic national acoounting, if they were living under conditions and were brought up to a level of productivity that could put them all into remunerative work.

Indeed, I believe that the prosperous majority of Americans would be even better off -- make more profits and have higher dividends and salaries -- if there were no pockets of poverty, unemployment, underemployment, and general misery. The studies which have been made of the effects of economic and social welfare policies in countries more advanced in these fields than America, for instance Norway, generally show that they have been highly productive from a national economic point of view.

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I have stressed that a precondition for every policy to increase employment and make the improved education and training of the youth and the retraining of the old effective, is a higher and steadier growth of the conomy. Expansion requires a rise in the demand for consumption and investment,. Of these two, the need to increase consumption is the more fundamental, as in the longer run investment, in the private sector at least, normally requires in-

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At the very outset of an expansionary policy there is, however, special need for a decrease in taxation as a first move. All the reforms mentioned -- except, perhaps, a widening of the field for minimum wage legislation and a few others -- require careful and time-consuming preparations and cannot be extemporized. The construction works and the building of new schools and

more hospitals puts up requirements for study and drafting, utilizing a part of the labor force which at present is particularly scarce. For raising the levels of education, training and health teachers, nurses, and doctors have to be provided, and teachers of the teachers, which again cannot be extemporized. Even the social security reforms need extensive preparatory work which takes time.

From that point of view I can in the present situation see good reasons for starting the drive for expan sion and fuller employment with a tax decrease. There is also the political fact that the proposal in that direction made by the administration, that is now being cnnsidered by Congress, is one of the first moves in America to stimulate the economy by intentionally underbalancing the federal budget, and the first one to use underbalancing as a means of even prolonging a boom. So I am inclined to feel that it represents an advance in the right direction, which can contribute to loosening up the tabu against budget underbalancing, even though I had rather seen the tax relief more concentrated on the lower income brackets where is is more needed and where it would most raise demand for consumption goods.

But when this is said, it should immediately be added that this move must be followed by urgent preparations for enlarging public expenditure in the directions I have pointed to. It is most dangerous when the tax relief is taken as a reason for going slow with the expensive and large scale reforms that are necessary for eradicating unemployment,underemployment, and poverty in America.

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This brings me to the problem of balancing or not balancing the federal budget. Large sections of the American public and the Congress hold in this question opinions that have no support in economic theory and that are not commonly held in other advanc d countries, viz., that, in principle, expenditures on the federal budget should be balanced by taxation.

When for generations this view has not been taken on the continent of Western Europe, I believe that the explanation is the rather accidental fact that in our part of the world it was the state that had to build the railraods -- not because they were more "socialistic" but simply because there was no one else

who could undertake and finance such big enterprises. It then seemed unreasonable for the governments and parliaments in our countries, that the state should finance them by means of pressing taxes upon their citizens instead of issuing bonds as private corporations could do. In the literal sense of the word, they made a virtue out of a necessity. And when once-a hundred years ago -- they so got a capital budget which did not need to be balanced by taxation it was easier later to relax still more the rule of "sound" finance to permit underbalancing the budget even in regard to expenditures that were not in that sense self-liquidating.

I cannot refrain from telling you a recent experience from my own country, Sweden, which must seem curiously up-side-down to my American audience; In a situation of threatening overfull employment and inflationary pressure, the Swedish social democratic government, which has been in power for a third of a century, felt that they needed to put on brakes, and so they decided to raise taxation to the level where for a while we actually had a balanced budget in the American sense. The political parties to the right of the party in power criticized then the government fiercely for overtaxing the citizens and even insinuated that this was a design to move our economy in a socialistic direction by robbing the citizens and private business of the funds they needed. So differently the problem of balancing the budget can appear in two otherwise very similar countries.

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In fact, you have examples nearer at hand. When the railroads were built in America, the Federal government favored the railroad companies in various ways, which occasionally broke the rule of balancing the budget. Moreover, there has been from the beginning a systematic underbalancing of public budgets at the state and local levels without anybody complaining about "unsound" finances.

Just as the West European countries could not possibly afford to build the railroads and finance them by taxation, and, as nobody else undertook it, then were compelled to give up the principle of a balanced budget, so the state and the local governments in the United States were forced to move in the same direction, if the country should not be without schools, roads, etc. Even more definitely and earlier they had to give up even the rule which for a time some European governments tried to adhere to, fiz., that the loan-financed

expenditures should be for undertakings that were financially self-liquidating. There is no rational reason why there should be rules of "sound" finances for the federal government different from those which are accepted on the state and local levels.

But quite aside from these comparisons we have to recognize that different types of expenditures have very different effects upon the development of the economy. The expensive reforms I have listed will in their consolidated effects upon the growth of the national product in the long run probably be more profitable than most investments in plants and machines (exceptions are perhaps the provision of additional income and better living conditions for the aged, and a few other reforms that are urgently needed for moral reasons). Different types of taxes have in the same way very different effects upon more or less productive consumption and upon savings. To add it all up into two abstract figures of money, the one representing an outflow from the treasury of money for their very different purposes and the other an inflow of money having equally very different effects on the national economy, and then attach importance to these disparate sums being equal has no rational ground whatsoever.

I would like to add one more point. I am the last one to want moral considerations to be expurged from the discussion of economic and social problems. I rather continuously stress that these problems are all moral in their essence. But I react against arbitrary and formal principles like that of the balanced budget being elevated to be themselves moral imperatives. We have to view the national budget from the point of view of what is best for the nation. In economic terms, what matters is not a balanced budget but a balanced economy, that permits both economic progress and social justice, two goals which, as I pointed out, converge.

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The argument that a nation must handle its purse strings with the same prudence as an individual is a theoretically false analogy, as an individual is not in the position to borrow from himself. Moreover, if the implication is that the government should not borrow even for productive purposes it is, of course, a rule which no private householder follows, or should follow, if he is wise and prudent. And we know that there has been a huge increase,

both absolutely and relatively, of private borrowing by business as well as by consumers.

This does not mean that Congress should not carefully weigh each dollar that is spent and each dollar that is taken in by taxation or other means. But the weighing should be in terms of progress and welfare for the nation. I can see no virtue in America having decreased its national debt in post-war years to half its size compared with the national income, while abstaining from undertaking a great number of public expenditures that would have been highly productive from a national point of view -- and the related fact that America has been satisfied for a whole decade with a rate of growth of only a little more than one percent per head, and satisfied to see the trend of unemployment rising to the present high level. In the interest of public enlightenment I would wish my American colleagues to spend a little more of their time to disseminating some simple truths about budget balancing and related issues.

This should be the place to discuss a host of problems: the more intensive forecasting and planning on a national level which becomes necessary if America is going to attain full employment and keep a stable high rate of growth; the monetary and fiscal means which then will have to be applied in order to avoid overheating and inflation, the controls of profits and costs which might also become necessary; and the problem of preserving exchange balance with the outside world. In my brief introductory address this morning I cannot find place for even the type of summary discussion of these problems which I have devoted to the problem of budget balancing. Hoping that they will be taken up by la later speakers I will restrict myself to two remarks.

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One is, that the cost structure in America does not presently give rise to any serious apprehension, particularly when we observe the tight labor market and the common tendency to raise prices and costs in the other rich countries. A rapid and steady expansion of economic growth in America and a fuller utilization of industrial capacity should yield lower unit costs and have a positive and favorable effect on America's balance of payments.

The other observation is that for various reasons I believe that in America too much attention is paid particularly to the movements and the value

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of gold. It should be made dear that fundamentally the value of gold is much more definitely dependent upon the dollar than vice versa. The plain fact is that if America did not stand ready to buy foreign gold at a prescribed price, the value of gold would drop to a level not very much higher than copper. In the international game of gold hoarding, America holds the trump card and should, in my opinion, not be afraid to play it.

VI

America needs rapid and steady economic progress in order to preserve its strength in foreign relations and in order to be able to form its foreign policies in a spirit of calm and rationality. Internationally, economic progress is in the way I have tried to sketch intimately connected with, and dependent upon, huge reforms which are also motivated by the demands for social justice. An economically progressive America is not compatible with high and, as a trend, rising unemployment and with holding an underclass in poverty.

Aside from economic relations, America cannot afford to remain the one of the rich countries which has the highest rate of unemployment, which has the worst and biggest slums, which is least generous in giving economic security to its old people, its children, its sick people and its invalids.

The Americans are not a cynical people. The fact that reforms in the interest of social justice are equally needed for economic progress is also more and more commonly understood and will give strength to the moral imperative. I foresee with certainty a fundamental change in American attitudes to the problems we are discussing at this conference. Ever more detailed

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The Americans are not a cynical people. The fact that reforms in the interest of social justice are equally needed for economic progress is also more and more commonly understood and will give strength to the moral imperative. I foresee with certainty a fundamental change in American attitudes to the problems we are discussing at this conference. Ever more detailed statistics on poverty and its implications for both welfare and productivity will be assembled, analysed, published, and widely commented upon. Books will be written. This conference itself is a component of this big movement towards a more liberal and expansionary public policy.

American progressive political leaders are in the vanguard of this movement. Your late president pointed to the high and rising unemployment as the major domestic challenge in the Sixties. In the same spirit President Johnson has in his recent address to Congress on the State of the Union,

declared unconditional war on poverty and explained what he has in mind by arguments closely along the line that I have here tried to spell out today. Fortunately, my message today is thus not very original but has by two presidents been declared to be the official policy of the United States.

The realization of these intentions will by necessity take time. Not only is it necessary to change the American people's thinking on many issues. The majority of the reforms need careful preparation. And even after the planning stage many of them can only gradully be realized; and their aims will be reached still later. To eradicate poverty in America, or merely to bring down unemployment considerably is a time-consuming business which will not be accomplished, except over a number of years. The urgency to start on this road is, however, great. In fact, every year and every month that unemployment is high and poverty is great increases the difficulties to be overcome.

But when once the movement has begun and has got momentum, it will swell. Financially it will imply public expenditure that amounts to very much more than the billion set out in the plans for the coming budget.